Motilal Oswal Investment Services

18 October 2022
2QFY23 Results Update | Sector: Financials

Can Fin Homes

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	69.9 / 0.8
52-Week Range (INR)	721 / 408
1, 6, 12 Rel. Per (%)	-18/-19/-21
12M Avg Val (INR M)	638

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	8.2	10.0	11.3
PPP	6.8	8.5	9.6
PAT	4.7	5.9	6.6
EPS (INR)	35.4	44.2	49.5
EPS Growth (%)	3.3	24.8	12.0
BVPS (INR)	230	272	320
Ratios (%)			
NIM	3.4	3.5	3.3
C/I ratio	18.3	17.0	17.2
RoAA	1.9	1.9	1.8
RoE	16.6	17.6	16.7
Payout	5.7	5.0	4.4
Valuation			
P/E (x)	14.8	11.9	10.6
P/BV (x)	2.3	1.9	1.6
Div. Yield (%)	0.4	0.4	0.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	30.0	30.0	30.0
DII	24.8	24.7	17.3
FII	0.0	0.0	0.0
Others	45.2	45.3	52.7

FII Includes depository receipts

CMP: INR525 TP: INR610 (+16%) Buy

Next leg of re-rating will be driven by the new management

CANF's 2QFY23 results reiterated that all the noise around asset quality/fraudulent accounts over the last two quarters have been addressed and there will be no unpleasant surprises as the current CEO Mr. Girish Kousgi steps down. Disbursements have gathered pace and we expect the momentum to sustain in the subsequent quarters. The only thing we would closely monitor is its impact on margins, wherein we estimate NIM compression of ~15bp YoY in FY24E. We model an AUM/disbursement CAGR of 17%/10% over FY22-24. Given that we do not expect any new negative developments in asset quality, we now estimate FY23 credit costs of ~16bp (v/s ~20bp earlier). Valuations can get re-rated to 2.0x P/BV, if the new (to-be appointed) management team (of MD & CEO/CFO/CRO) gains the investor confidence that CANF can continue delivering the same strong loan growth and pristine asset quality as it has been exhibiting under the leadership of the outgoing CEO. We reiterate our Buy rating.

Operating profits in line; PAT below estimate due to higher credit costs

- Can Fin Homes (CANF)'s 2QFY23 PAT grew 15% YoY but declined 13% QoQ to INR1.4b (8% miss), led by higher-than-estimated credit costs. PPoP was largely stable QoQ and up 33% YoY to ~INR2.2b (in-line).
- GNPA improved ~3bp sequentially to 0.62%, while NNPA increased ~5bp QoQ to 0.35% with PCR declining ~110bp QoQ to ~43%. Credit costs stood at INR132m (v/s MOFSLe INR100m). Decline in PCR was driven by transition to ECL-based provisioning norms.
- Bank borrowings increased to 54% (from 50% a year ago), while the share of CPs declined sequentially ~300bp to 8%. We expect the healthy trajectory of loan growth and asset quality to sustain while margins remain a key monitorable.

Healthy growth in advances

- Disbursements grew ~2% YoY to INR22.45b, while there was a sequential increase of ~INR5.2b in absolute quantum of disbursements.
- Advances grew 22% YoY/5% QoQ to INR288b. The run-off in the loan-book was meaningfully lower than expectations, suggesting that CANF was highly successful in stemming balance transfers during the quarter.

Margin declines sequentially; share of bank borrowings stable QoQ

- NIM (calc.) declined ~5bp sequentially to ~3.55% in 2QFY23.
- Reported spreads declined ~15bp QoQ to ~2.5%. This was predominantly because of the higher CoF, which increased ~25bp QoQ to ~6% even as yields improved ~10bp QoQ to 8.55%.
- CANF replaced CPs (down 3pp QoQ) with NCDs (up 3pp QoQ), while the bank term loans remained stable sequentially.

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Highlights from the management commentary

- While the management guided for margins and spreads of 3.5% and 2.5% over the next few quarters, in the medium term, it expects 3.0% and 2.4%, respectively.
- Shared that the hiring process of the new MD&CEO has started and that it expects the new MD/CEO to assume office within the next 2-3 months. Likewise, CANF will also be looking to onboard a new CFO and CRO, suggesting that a completely new senior leadership team will assume office at the company within the next few months.

Valuation and view

- We model in a NII/PPOP/PAT CAGR of 18%/19%/18% over FY22-24 for an RoA of 1.9%/1.8% and RoE of 17.6%/16.7% over FY23/24, respectively.
- CANF is a franchise with moats on the liability side and strong asset quality. Its ability to maintain stable margins is a key monitorable as CANF continues on its healthy loan growth trajectory.
- The next leg of the re-rating in valuation multiple will be contingent on the appointment of the new management team and its ability to inspire investor confidence in loan growth and asset quality. We reiterate our Buy rating with a TP of INR610 (premised on 1.9x FY24E BVPS).

Quarterly performance INR m

Y/E March	FY22				FY23E				FY22	FY23E	2QFY23E	Act vs est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23E	4QFY23E				
Interest Income	4,492	4,626	5,020	5,558	6,065	6,522	6,913	7,203	19,697	26,703	6,368	2
Interest Expenses	2,680	2,708	2,961	3,185	3,561	4,010	4,371	4,712	11,535	16,654	3,846	4
Net Interest Income	**1,812**	**1,918**	**2,059**	**2,373**	**2,504**	**2,512**	**2,542**	**2,491**	**8,162**	**10,049**	**2,522**	0
YoY Growth (%)	-5.3	-8.9	-2.1	27.7	38.2	31.0	23.4	5.0	2.3	23.1	31.5	
Other income	16	53	64	55	51	54	61	59	188	225	61	-11
Total Income	**1,828**	**1,971**	**2,124**	**2,428**	**2,555**	**2,566**	**2,603**	**2,550**	**8,350**	**10,274**	**2,583**	-1
YoY Growth (%)	-4.6	-7.2	-0.6	26.1	39.8	30.2	22.6	5.1	3.1	23.0	31.1	
Operating Expenses	303	342	403	482	405	405	433	509	1,530	1,752	420	-4
YoY Growth (%)	40.8	35.8	17.1	12.4	33.8	18.3	7.3	5.7	23.4	14.5	22.7	
Operating Profits	**1,526**	**1,628**	**1,720**	**1,946**	**2,150**	**2,161**	**2,170**	**2,041**	**6,820**	**8,522**	**2,163**	**0**
YoY Growth (%)	-10.4	-13.0	-4.0	30.0	40.9	32.7	26.1	4.9	-0.6	25.0	32.8	
Provisions	65	-62	164	302	-37	132	190	182	469	467	100	32
Profit before Tax	**1,460**	**1,690**	**1,557**	**1,643**	**2,187**	**2,028**	**1,980**	**1,859**	**6,351**	**8,055**	**2,063**	-2
Tax Provisions	372	454	400	414	565	611	515	484	1,640	2,175	524	17
Profit after tax	**1,088**	**1,236**	**1,157**	**1,229**	**1,622**	**1,417**	**1,465**	**1,376**	**4,711**	**5,880**	**1,539**	-8
YoY Growth (%)	16.8	-3.7	-12.3	19.8	49.0	14.6	26.6	11.9	3.3	24.8	24.5	
Key Parameters (%)												
Yield on loans	8.1	8.1	8.3	8.6	8.9	9.3	9.4	9.3				
Cost of funds	5.6	5.4	5.4	5.3	5.7	6.2	6.4	6.6				
Spread	2.5	2.7	2.9	3.3	3.3	3.1	3.0	2.7				
NIM	3.3	3.3	3.4	3.7	3.7	3.6	3.4	3.2				
Credit cost	0.1	-0.1	0.3	0.5	-0.1	0.2	0.3	0.2				
Cost to Income Ratio (%)	16.5	17.4	19.0	19.8	15.8	15.8	16.6	20.0				
Tax Rate (%)	25.4	26.9	25.7	25.2	25.8	30.1	26.0	26.0				
Balance Sheet Parameters												
Loans (INR B)	**222.2**	**235.8**	**250.9**	**267.1**	**275.4**	**288.2**	**302.8**	**318.5**				
Growth (%)	6.6	13.2	19.5	20.8	23.9	22.2	20.7	19.2				
AUM mix (%)												
Home loans	90.5	90.3	89.9	89.6	89.6	89.5						
Non-housing loans	9.5	9.7	10.1	10.4	10.4	10.5						
Salaried customers	73.3	74.0	74.2	74.3	74.3	74.1						
Self-employed customers	26.7	25.9	25.7	25.7	25.7	25.9						
Disbursements (INR B)	**8.9**	**22.1**	**24.7**	**27.1**	**17.2**	**22.5**						
Change YoY (%)	122.9	167.6	123.5	35.2	92.6	1.7						
Borrowing mix (%)												
Banks	47.0	50.0	53.0	51.0	54.0	54.0						
NHB	25.0	24.0	23.0	22.0	22.0	22.0						
Market borrowings	26.0	24.0	22.0	25.0	22.0	22.0						
Deposits	2.0	2.0	2.0	2.0	2.0	2.0						
Asset Quality												
GNPL (INR m)	2,000	1,851	1,772	1,706	1,798	1,787						
NNPL (INR m)	1,265	1,103	970	807	819	1,012						
GNPL ratio %	0.90	0.78	0.71	0.64	0.65	0.62						
GNPL ratio %	0.57	0.47	0.39	0.30	0.30	0.35						
PCR %	37	40	45	53	54	43						
Return Ratios (%)												
ROA (Rep)	2.0	2.1	2.0	2.1	2.4	2.1						
ROE (Rep)	16.0	16.4	15.8	16.0	20.0	16.8						

E: MOFSL estimates

CONFERENCE CALL

Highlights from the management commentary

Business update

- Though property prices increased 10-12% and construction costs increased 6-7%, the demand in the housing industry remains robust.
- Karnataka and Telangana jointly contribute 42-43% to the loan mix. The share of Karnataka in the loan mix has moderated over the years.
- Over the long term, the loan mix is expected to normalize in the ratio of 70:30 between salaried and non-salaried.
- The company has started shortlisting new CEOs and expects him to join before the end of the calendar year.
- 79% of the sourcing is through Direct Selling Agents (DSAs) and the remainder through its branches.

Guidance

- While margins are expected to be 3.5% and spreads 2.5% in the near term, over the medium term, the company expects it to moderate to 3% and 2.4% respectively.
- The company guided for disbursement growth of 18-20% over the next three to four years.
- The management provided credit costs guidance of 0.12-0.14% in the forthcoming years (v/s current level of 0.04%).
- Plans to enter developer financing segment with the same expected to form 0.5% of the loan mix over a period of three years.
- The company is planning to raise capital before Mar'23 to support higher growth levels.

Yields and CoF

- The incremental yields are at 9.02% and incremental CoF at 6.48%. The company plans to increase interest rate in the subsequent quarter.
- Majority part of the borrowings (except NHB borrowings) is linked to benchmark rates and is floating in nature.
- The company projects the borrowing mix to largely remain stable in the coming quarters.
- Though the company is keen on increasing deposits, it will do so only if it is able to raise deposits at competitive rates. Rate for market borrowing is below 5%, while that of deposits is higher than average borrowing cost of the company.

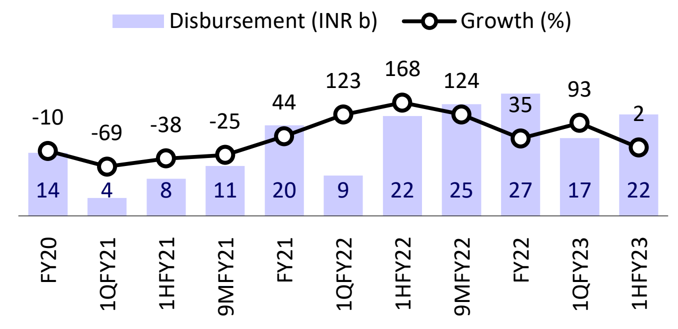
Asset Quality

- NNPA in 2QFY23, as per IRAC norms, stands at 0.28%, while the same under ECL norms, stands at 0.35% (v/s 0.3% in previous quarter). The difference is due to the differing provisioning requirements under IRAC and ECL norms.
- Net slippages in the quarter were at INR10m (gross slippages at INR130m and recoveries of INR120m).
- Total provisions under the ECL model stood at ~INR20.9b, out of which, standard asset provisions stood at INR13.1b.

- Restructured book stands at ~INR6.5b, on which the company is carrying provisions of INR0.67b.
- Out of the restructured book, INR10m forms part of 1-90dpd and the company expects it to increase to a maximum level of INR320m. However, on a net basis, it is not expected to affect NPA levels.
- The company has not undertaken any write-offs in the last two years.
- Stage 2 book stood at INR10.5b and provisions on stage 2 stood at INR0.6b.

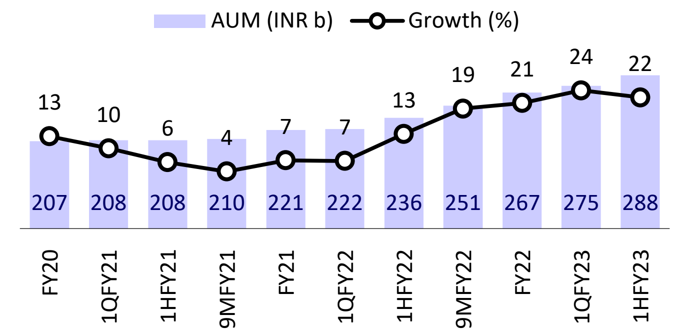
Key exhibits

Exhibit 1: Disbursements grew 2% YoY



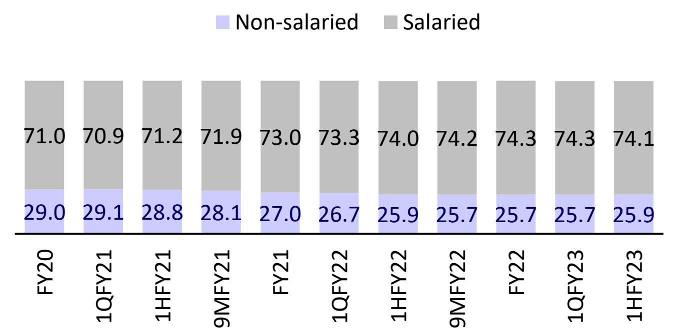
Source: MOFSL, Company

Exhibit 2: AUM grew 22% YoY



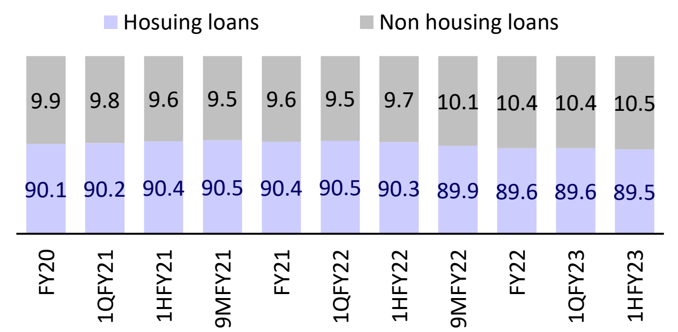
Source: MOFSL, Company

Exhibit 3: Share of Salaried customers stable at ~74%



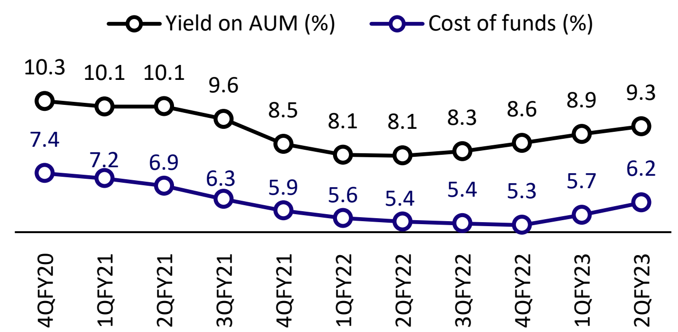
Sources: MOFSL, Company

Exhibit 4: Share of Housing loans stable at ~90%



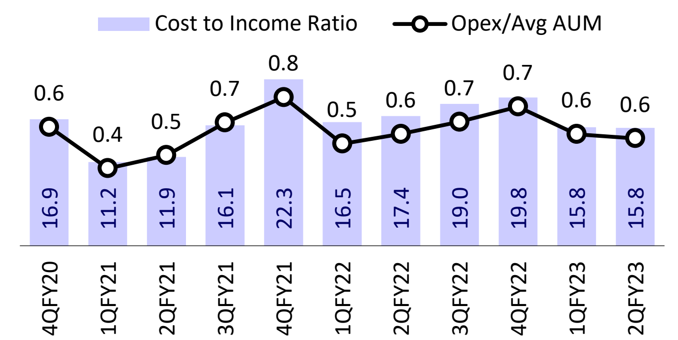
Sources: MOFSL, Company

Exhibit 5: Calculated spreads decline ~20bp QoQ



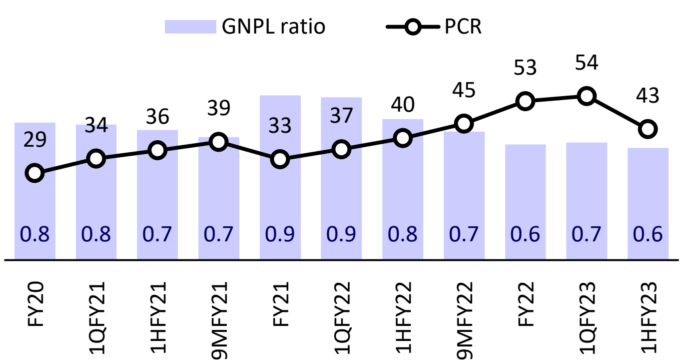
Sources: MOFSL, Company

Exhibit 6: C/I ratio falls 160bp YoY



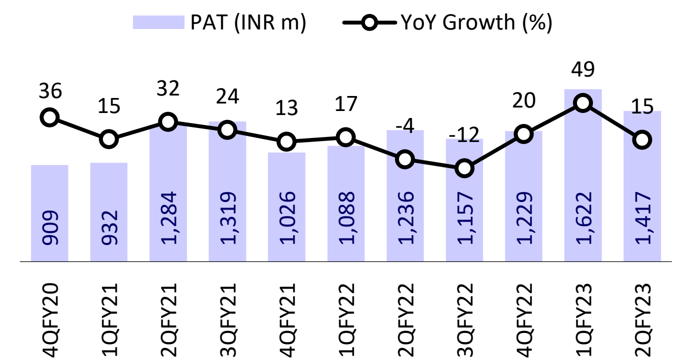
Sources: MOFSL, Company

Exhibit 7: PCR down ~110bp QoQ, with an improvement in GNPA



Sources: MOFSL, Company

Exhibit 8: PAT declined ~13% QoQ and grew ~15% YoY



Sources: MOFSL, Company

Valuation and view

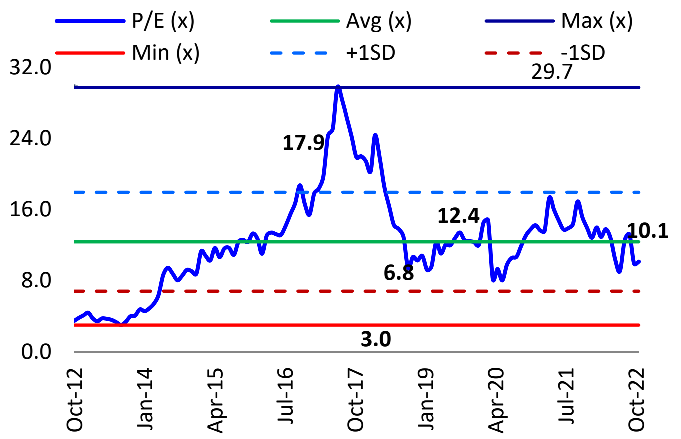
- We model in a NII/PPOP/PAT CAGR of 18%/19%/18% over FY22-24 for an RoA of 1.9%/1.8% and RoE of 17.6%/16.7% over FY23/24, respectively.
- CANF is a franchise with moats on the liability side and strong asset quality. Its ability to maintain stable margins is a key monitorable as CANF continues on its healthy loan growth trajectory.
- The next leg of the re-rating in valuation multiple will be contingent on the appointment of the new management team and its ability to inspire investor confidence in loan growth and asset quality. We reiterate our Buy rating with a TP of INR610 (premised on 1.9x FY24E BVPS).

Exhibit 9: Decrease our FY23/24 EPS estimate by ~3.6%/3.1% to factor in higher credit costs in FY24 and lower NII over FY23-24

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	10.2	11.4	10.0	11.3	-1.7	-1.2
Other Income	0.2	0.3	0.2	0.3		
Total Income	**10.5**	**11.7**	**10.3**	**11.6**	**-1.7**	**-1.2**
Operating Expenses	1.8	2.0	1.8	2.0	-0.4	-1.3
Operating Profits	**8.7**	**9.7**	**8.5**	**9.6**	**-2.0**	**-1.2**
Provisions	0.5	0.6	0.5	0.7	-8.4	28.5
PBT	**8.2**	**9.1**	**8.1**	**8.8**	**-1.6**	**-3.1**
Tax	2.1	2.3	2.2	2.3	4.2	-3.1
PAT	**6.1**	**6.8**	**5.9**	**6.6**	**-3.6**	**-3.1**
AUM	309	350	318	369	3.2	5.3
Borrowings	284	319	294	339	3.5	6.4
NIM (%)	3.6	3.5	3.5	3.3		
ROA (%)	2.0	2.0	1.9	1.8		
RoE (%)	18.2	17.1	17.6	16.7		

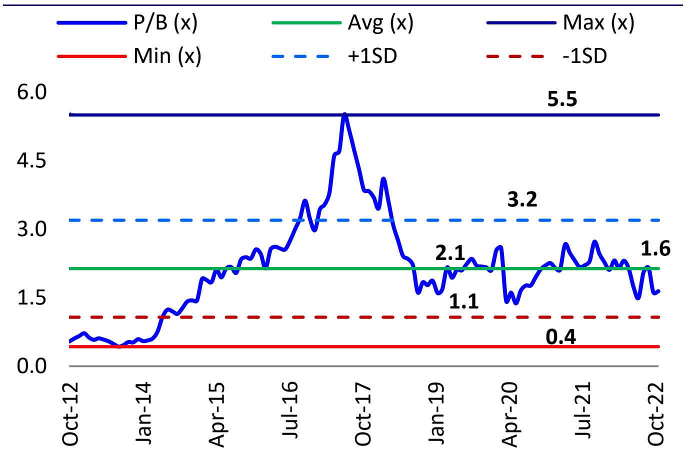
Sources: MOFSL, Company

Exhibit 10: One-year forward P/E ratio



Sources: MOFSL, Company

Exhibit 11: One-year forward P/B ratio



Sources: MOFSL, Company

Financials and valuations

Income statement

INR m

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	10,444	13,060	14,906	17,134	20,189	20,064	19,697	26,703	31,907
Interest Expended	7,435	8,840	9,810	11,693	13,442	12,083	11,535	16,654	20,593
Net Interest Income	**3,009**	**4,220**	**5,096**	**5,441**	**6,747**	**7,980**	**8,162**	**10,049**	**11,314**
Change (%)	69.4	40.2	20.8	6.8	24.0	18.3	2.3	23.1	12.6
Other Income	391	471	314	179	115	121	188	225	257
Net Income	**3,401**	**4,691**	**5,410**	**5,621**	**6,862**	**8,101**	**8,350**	**10,274**	**11,571**
Change (%)	64.5	37.9	15.3	3.9	22.1	18.0	3.1	23.0	12.6
Operating Expenses	668	807	878	915	1,076	1,240	1,530	1,752	1,988
Operating Income	**2,733**	**3,884**	**4,532**	**4,706**	**5,786**	**6,861**	**6,820**	**8,522**	**9,583**
Change (%)	80.1	42.1	16.7	3.8	23.0	18.6	-0.6	25.0	12.5
Provisions/write offs	194	188	221	11	603	685	469	467	743
PBT	**2,539**	**3,696**	**4,311**	**4,695**	**5,183**	**6,176**	**6,351**	**8,055**	**8,841**
Tax	968	1,349	1,449	1,728	1,422	1,615	1,640	2,175	2,254
Tax Rate (%)	38.1	36.5	33.6	36.8	27.4	26.2	25.8	27.0	25.5
Reported PAT	**1,571**	**2,347**	**2,862**	**2,967**	**3,761**	**4,561**	**4,711**	**5,880**	**6,586**
Change (%)	82.2	49.4	22.0	3.7	26.8	21.3	3.3	24.8	12.0
Proposed Dividend (incl. tax)	321	321	321	321	321	266	266	293	293

Balance sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	266	266	266	266	266	266	266	266	266
Reserves & Surplus	8,514	11,771	14,604	17,556	21,234	25,832	30,400	35,987	42,280
Net Worth	**8,780**	**12,037**	**14,870**	**17,822**	**21,501**	**26,098**	**30,666**	**36,253**	**42,547**
Borrowings	90,740	1,18,675	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,94,229	3,39,413
Change (%)	23.0	30.8	17.3	20.7	11.6	2.9	27.8	19.4	15.4
Other liabilities	8,040	2,168	3,215	1,500	1,451	1,710	2,300	2,876	3,594
Total Liabilities	**1,07,560**	**1,32,880**	**1,57,295**	**1,87,295**	**2,10,436**	**2,20,737**	**2,79,443**	**3,33,358**	**3,85,554**
Loans	**1,07,146**	**1,32,241**	**1,56,440**	**1,82,342**	**2,05,257**	**2,18,915**	**2,63,781**	**3,15,358**	**3,64,961**
Change (%)	29.1	23.4	18.3	16.6	12.6	6.7	20.5	19.6	15.7
Investments	149	160	160	163	243	496	11,260	12,949	14,891
Change (%)	0.0	7.1	0.0	1.9	49.1	104.1	2,169.9	15.0	15.0
Net Fixed Assets	89	102	96	99	379	378	346	317	290
Other assets	175	377	600	4,692	4,557	948	4,057	4,734	5,413
Total Assets	**1,07,560**	**1,32,880**	**1,57,295**	**1,87,295**	**2,10,436**	**2,20,737**	**2,79,443**	**3,33,358**	**3,85,554**

E: MOFSL estimates -

Financials and valuations

Ratios									(%)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Yield on loans	11.0	10.9	10.3	10.1	10.4	9.44	8.14	9.2	9.4
Cost of funds	9.0	8.4	7.6	7.6	7.6	6.35	5.25	6.2	6.5
Spread	1.9	2.5	2.7	2.5	2.8	3.1	2.9	3.0	2.9
Net Interest Margin	3.2	3.5	3.5	3.2	3.5	3.8	3.4	3.5	3.3
Profitability Ratios (%)									
RoE	19.0	22.5	21.3	18.2	19.1	19.2	16.6	17.6	16.7
RoA	1.6	2.0	2.0	1.7	1.9	2.1	1.9	1.9	1.8
C/I ratio	19.6	17.2	16.2	16.3	15.7	15.3	18.3	17.0	17.2
Asset Quality (%)									
Gross NPAs	198	279	675	1,135	1,571	2,019	1,706	2,220	2,740
Gross NPAs to Adv.	0.2	0.2	0.4	0.6	0.8	0.9	0.6	0.7	0.7
Net NPAs	0	0	316	795	1,118	1,343	807	1,221	1,480
Net NPAs to Adv.	0.0	0.0	0.2	0.4	0.5	0.6	0.3	0.4	0.4
PCR	100.0	100.0	53.2	30.0	28.8	33.5	52.7	45.0	46.0
VALUATION									
Book Value (INR)	66	90	112	134	161	196	230	272	320
Price-BV (x)	**8.0**	**5.8**	**4.7**	**3.9**	**3.2**	**2.7**	**2.3**	**1.9**	**1.6**
EPS (INR)	11.8	17.6	21.5	22.3	28.2	34.2	35.4	44.2	49.5
EPS Growth YoY	82.2	49.4	21.9	3.7	26.8	21.3	3.3	24.8	12.0
Price-Earnings (x)	**44.5**	**29.8**	**24.4**	**23.5**	**18.6**	**15.3**	**14.8**	**11.9**	**10.6**
Dividend per share (INR)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.2
Dividend yield (%)	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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